



# Tax Facts

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### Looking for an easier way to file your state taxes?

Sign up to use our Electronic Filing (E-file) service on our web site. By filing electronically, your taxes are calculated automatically and the return is checked for errors.

## 2004 Legislative tax changes

The 2004 Legislature made several changes to taxes and programs administered by the Department of Revenue. This publication provides a brief summary of some of the bills affecting excise taxes that were signed into law. You can access copies of complete bills online at: <http://www.leg.wa.gov/wsladm/bills.cfm>.

Topics on which the Department anticipates issuing or has issued Special Notices are identified by this icon . You may access Special Notices from our web site under *Tax Topics*, "Special Notices," or call **1-800-647-7706** to request a copy.

### Business and Occupation (B&O), Sales, and Use Taxes

**Auto dealer trades – HB 2453 (Chapter 81, Laws of 2004)** allows a B&O tax exemption for wholesale sales of new motor vehicles by a new car dealer to another new car dealer who sells the same make of vehicle. Previously, the exemption was allowed only when the amount paid by the purchasing dealer did not exceed the amount paid by the selling dealer when the vehicle was acquired. HB 2453 eliminates this limitation. *Effective March 22, 2004.*

**Bundling of charges for telecommunications services – SHB 2055 (Chapter 76, Laws of 2004)** allows telephone services not subject to sales tax to retain this tax treatment when these services are bundled with other taxable services, as long as the provider can identify the portion of the price that is attributable to the nontaxable services using its books and records maintained in the ordinary course of business and for purposes other than just allocating the sales price of a bundled transaction. *Effective June 10, 2004.*


**Computer equipment used primarily in printing and publishing – SHB 3158 (Chapter 8, Laws of 2004)** provides a sales and use tax exemption for computers and related equipment, including repair/replacement parts, primarily used by printers or publishers as defined in RCW 82.04.280. This exemption also applies to sales of or charges made for labor and services rendered in respect to installing, repairing, cleaning, altering, or improving the computer equipment. *Effective June 10, 2004.*

**Licensed boarding homes – SHB 1328 (Chapter 174, Laws of 2004)** provides a lower B&O tax rate (0.275 percent) for boarding homes licensed under chapter 18.20 RCW. The bill also provides a B&O tax deduction for amounts received for providing services under contract with the Department of Social and Health Services to residents who are Medicaid recipients. Amounts received for services other than room or domiciliary care to residents are taxed according to the activity. *Effective July 1, 2004.*

**Salmon restoration – EHB 2968 (Chapter 241, Laws of 2004)** allows a B&O tax deduction for grants received by nonprofit organizations to support salmon restoration programs. The grants must be from the United States or any instrumentality thereof, or from the state of Washington or any municipal corporation or political subdivision thereof. *Effective March 31, 2004.*

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 **Temporary B&O tax relief for beef processors – SHB 2929 (Chapter 235, Laws of 2004)** provides limited deductions from the measure of B&O tax for certain beef processing businesses that sell slaughtered or processed perishable/nonperishable beef products at wholesale only. The deduction is only available to those businesses that slaughter the cattle processed and sell at wholesale and is not available for any retail sales. The deduction is allowed from March 31, 2004, until the first day of the month following the date when bans on the importation of beef and beef products from the US to Japan, Mexico, and South Korea are lifted. *Effective March 31, 2004.*

## Tax Incentive Programs


**Aluminum smelter tax incentive program – SSB 6304 (Chapter 24, Laws of 2004)** lowers the B&O tax rate for aluminum smelters to 0.2904 percent. The program also provides a B&O tax credit for property taxes paid, an exemption from the state portion of retail sales tax and use tax on tangible personal property and all construction at an aluminum smelter, and exemption from the natural gas use tax. In addition, B&O tax and public utility tax credits are available for persons supplying energy to aluminum smelters, provided that the economic benefit of the credits are passed on to the smelter in the form of lower energy prices. *Effective July 1, 2004.*

**Electrolytic processing tax incentive program – ESHB 2518 (Chapter 240, Laws of 2004)** provides that public utility tax does not apply to amounts received from sales of electricity to chlor-alkali electrolytic processors by a light and power business, provided that the price charged to the processor is reduced by the amount of the exemption. *Effective July 1, 2004.*


 **Rural county tax incentives – SSB 6240 (Chapter 25, Laws of 2004)** extends and modifies the sales and use tax deferral/waiver program for rural counties and community empowerment zones. The law also reestablishes the following two programs, which expired after December 31, 2003:


1. B&O tax credit of \$1,000 per year for up to five years for new jobs in computer software manufacturing or programming in rural counties.
2. B&O tax credit for 100 percent of B&O tax liability attributable to providing information technology help desk services from a rural county.

Detailed information on changes to the tax incentive program is available on our web site under *Tax Topics*, “Tax Incentives.” *All rural county incentives become effective April 1, 2004. The two reestablished programs became effective April 1, 2004, and will expire January 1, 2011.*


 **Tax incentives for high technology businesses – ESHB 2546 (Chapter 2, Laws of 2004)** extends and modifies the existing tax incentives available for high technology businesses. Detailed information on changes to the tax incentive program is available on our web site under *Tax Topics*, “Tax Incentives.” *Most changes became effective June 10, 2004; a portion regarding federal small business grants becomes effective July 1, 2004.*


## Other Legislation

 **Electric utility tax credit program changes – ESHB 2675 (Chapter 238, Laws of 2004)** makes changes to the Electric Utility Rural Economic Development Revolving Fund Public Utility Tax Credit, extends the credit through June 30, 2011, and requires that the credit be calculated on a fiscal year basis rather than a calendar year basis. *Effective July 1, 2004.*

 **Gift certificates exempt from unclaimed property – EHB 3036 (Chapter 168, Laws of 2004)** generally relieves businesses from the requirement to report gift certificates with balances remaining as unclaimed property. Gift certificates that are presumed abandoned may, but are not required to, be reported as unclaimed property. The law also provides:

- When gift certificates have remaining values of less than \$5, the issuer must pay the bearer in cash for the remaining value of the certificate, if the bearer asks.
- Except in limited circumstances, the issuer may not enforce an expiration date, dormancy or inactivity charges, or service fees on gift certificates. *Unclaimed property provisions effective January 1, 2005. Remainder of the bill effective July 1, 2004.*

 **Special event promoters and vendor verification – SB 6663 (Chapter 253, Laws of 2004)** requires that special event promoters make a “good faith effort” to verify that vendors at their events are registered to do business with the Department of Revenue. It also requires that such promoters make a good faith effort to keep and preserve specific vendor information records for a period of one year from the date of the event. *Effective June 10, 2004.*

 **Streamlined sales and use tax agreement – SB 6515 (Chapter 153, Laws of 2004) and SB 5783 (Chapter 168, Laws of 2003)** The “Streamlined Sales and Use Tax Agreement” is an agreement among a majority of states to provide uniformity in how certain products and services are *defined* for tax purposes. How an item is defined does not determine whether it is subject to sales or use tax. Whether tax applies, or not, is determined by the individual states. Following are a list of items that have been given new or modified definitions under the agreement. Refer to the Special Notices on our web site, or call our Telephone Information Center, if you have questions on any specific definition listed below.

#### **Changes effective January 1, 2004:**

RCW 82.08.0293 (See <http://dor.wa.gov> for Special Notices)

- food and food ingredients
- prepared food
- soft drinks
- alcoholic beverages
- tobacco
- dietary supplements

#### **Changes effective July 1, 2004:**

RCW 82.04.040

- lease or rental
- providing tangible personal property with an operator

RCW 82.04.215

- canned software
- computer software
- custom software
- master copies
- prewritten computer software

RCW 82.08.010

- selling price or sales price
- tangible personal property
- delivery charges

RCW 82.08.0281

- drugs and over the counter drugs
- prosthetic device
- durable medical equipment
- mobility enhancing equipment
- tangible personal property
- delivery charges

RCW 82.12.010

- value of article used
- value of service used
- purchase price

RCW 82.32

- place of primary use
- value of service used
- purchase price

### **Petroleum Products Tax Suspended**

Beginning July 1, 2004, the petroleum products tax (PPT) will no longer be imposed. The PPT is imposed on the first possessor of petroleum products in Washington.

The PPT was originally enacted by the Legislature in 1989 to finance a state pollution liability insurance program. The PPT is collected when the balance of funds in the trust account drops below the statutorily mandated level of \$7.5 million, which occurred effective July 1, 2003. The law also provides that when the trust account balance tops \$15 million, the PPT is suspended.

In April 2004, the trust account balance surpassed \$15 million, triggering a turn off of the PPT.

For more information, see our Special Notice *Petroleum Products Tax Suspended*, issued in April 2004 and available on our web site under *Tax Topics*, “Special Notices.”

Additional Special Notices are anticipated for medical equipment/prescription drugs and computer software sales. These changes will also be reflected in a variety of rule changes. Notification for rule changes will be provided when they occur.

# Special Notices

Access these new Special Notices on our web site under *Tax Topics*, “Special Notices” or request a copy by calling 1-800-647-7706.

- **Aerospace Industry B&O Tax Credit for Preproduction Development Expenditures** provides detailed information regarding the B&O tax credit provided in HB 2294 (2SS, Chapter 1, Laws of 2003). The B&O tax credit is equal to 1.5 percent of qualified preproduction development expenditures used in manufacturing commercial airplanes or component parts thereof by manufacturers and processors for hire of such airplanes or component parts.
- **Aerospace Industry B&O Tax Credit for Property Taxes Paid** details the B&O tax credit available for property taxes paid on qualifying property used in manufacturing commercial airplanes or component parts thereof.
- **B&O Tax Relief for Certain Beef Processors** explains how certain processors impacted by the ban on American beef products may qualify for a B&O tax deduction.
- **Computers Used in Printing & Publishing – Sales & Use Tax Exemption** details the new sales/use tax exemption for computers used in printing and publishing, effective June 10, 2004.
- **Grants for Salmon Restoration – Tax Change** details the B&O tax deduction that took effect March 31, 2004, for grants received by nonprofit organizations to support salmon restoration.
- **Petroleum Products Tax Suspended** explains that the petroleum products tax will not longer be collected, beginning July 1, 2004.
- **Place of Sale for Telephone Services** explains the methods by which telephone services are sourced by taxing jurisdictions, effective July 1, 2004.
- **“Prepared Food” Tax Changes** details the changes and clarifications made to the definition of “prepared food” by SB 6515 (Chapter 153, Laws of 2004), effective retroactively to January 1, 2004.
- **Rural County Tax Incentives: Deferral/Waiver Program Extended and Revised; Software Manufacturing, Programming and Help Desk B&O Tax Credits Reestablished** provides information on various revisions and extensions for rural county tax incentives provided under SSB 6240 (Chapter 25, Laws of 2004).
- **Sales of Bakery Items** clarifies the newly expanded sales tax exemption for bakery products resulting from SB 6515 (Chapter 153, Laws of 2004). The exemption was retroactively effective as of January 1, 2004.
- **Sales Tax Changes for Dietary Supplements** details the taxability of dietary supplements resulting from SB 5783 (Chapter 168, Laws of 2003).
- **Sealed Beverages – Sales Tax Changes** explains changes in the taxability of soft drinks and other sealed beverages resulting from SB 5783 (Chapter 168, Laws of 2003).
- **Small Water-Sewer and Irrigation Districts/Systems Exemptions Expire** notes the exemptions under the service and other activities B&O tax classification and the water distribution classification of the public utility tax that expire after June 30, 2004. The exemptions applied to certain small water-sewer districts and irrigation districts that provided residential drinking water.
- **Special Event Promoters and Vendors – New Requirements** explains the new “good faith” requirement implemented by SB 6663 (Chapter 253, Laws of 2004) for promoters charged with ensuring proper vendor registration.
- **Taxability of Licensed Boarding Homes** provides information on the new lower B&O tax rate for licensed boarding homes and also details a deduction provided for certain contracted services.
- **Telephone Taxes Previously Paid to the Department of Social and Health Services Now Paid to the Department of Revenue** details how local exchange companies are to report and pay taxes to the Department of Revenue, beginning July 1, 2004. Prior to the law change, these taxes were paid to the Department of Social and Health Services.

# Save the date! Biz Fair 2004 is coming September 11!

Attend the eighth annual Washington Small Business Fair on Saturday, September 11, from 8:30 a.m. to 4:00 p.m.

Biz Fair 2004 is the place to go to learn from experts on how to create or expand a small business. A long list of local and state government representatives and non-profit organizations, including trade associations and local chambers of commerce, will be available to answer your questions.

The Department of Revenue will provide a business tax overview and our representative will be available throughout the day to answer your specific questions. The fair will be held at:

**Renton Technical College**  
**3000 NE 4<sup>th</sup> Street**  
**Renton, Washington**



For a list of exhibitors, seminar topics, and directions to the fair, visit Biz Fair online at [www.bizfair.org](http://www.bizfair.org).

## New Retailing and Other Activities Tax Return debuts ...

The Department of Revenue recently implemented a new *Retailing and Other Activities Tax Return*. The return was developed to simplify tax return filing, with an easy to read format featuring reporting lines for only certain businesses.

### Who will receive the Retailing and Other Activities Tax Return?

Approximately 20,000 businesses in all, reporting under the following classifications:

- Retailing activities
- Insurance agents and insurance broker commissions
- Manufacturing
- Wholesaling
- Service and other activities

Implementation began with the April 2004 tax return for selected monthly filers. Qualifying quarterly filers will receive their first return (for Quarter 2, 2004) in June 2004. If you don't receive the new return, keep filing on the tax return you receive in the mail.

## Expiring Exemptions

Two exemptions for small water-sewer and irrigation districts will expire after June 30, 2004:

1. **B&O Tax Exemption** provided under RCW 82.04.312
2. **Public Utility Tax Exemption** provided under RCW 82.16.042

Prior to July 1, 2004, the exemptions applied to water-sewer districts and irrigation districts with fewer than 1,500 connections and small water systems with less than 200 connections providing residential drinking water and exceeding 125 percent of the average statewide residential water rate, as determined and published annually by the state Department of Health. *Both exemptions expire after June 30, 2004.*

## New Indian Tax Guide Available Online

The Department recently produced the **Indian Tax Guide**. This publication provides helpful information for businesses doing business with Indians and Indian tribes within "Indian country." You can access the guide on our web site at <http://dor.wa.gov>. **Please note** that only the Department of Revenue publishes official tax information related to state excise taxes associated with sales to Indians.





## Tax Workshops

Looking for a tax workshop in your area? Check out our web site! To view the updated schedule, register for a workshop, or for more information, visit our web site at <http://dor.wa.gov> and click on *Doing Business*.

Once you find the workshop that's right for you, complete our online registration form or call the number listed to sign up.

**Business Outreach Workshops** are scheduled throughout 2004 and provide a basic overview of taxes that apply to various business activities in Washington.

DATE	LOCATION	ADDRESS	TIME
7/6/04	Port Angeles	Port Angeles City Hall Council Chambers, 321 East 5th Street, Port Angeles (To register, please call 360/457-2564)	9:00-12:00
7/13/04	Bellingham	Worksource Office, 101 Prospect Street, Suite 10, Conference Room, Bellingham (To register, please call 360/738-6111)	1:00-4:00
7/14/04	Tacoma	Lakewood Library, 6300 Wildaire Road SW, Lakewood (To register, please call 253/593-2722)	1:00-4:00
7/15/04	Bellevue	Bellevue City Hall, Council Conference Room, 11511 Main Street, Bellevue (To register, please call 425/452-6851)	1:00-4:00
7/20/04	Wenatchee	Douglas County Fire District, 377 Eastmont Avenue, East Wenatchee (To register, please call 509/663-9741)	1:30-4:30
7/21/04	Vancouver	Department of Revenue Training Room, 8008 NE Fourth Plain Boulevard, Suite 340 (To register, please call 360/260-6178)	1:00-4:00
7/21/04	Spokane	Department of Revenue, 4407 N. Division, 8th floor of Northtown Office Bldg., Spokane (To register, please call 509/482-3805)	8:30-11:30; 1:30-4:30
7/22/04	Bremerton	The Central Kitsap Regional Library Heninger Room, 1301 Sylvan Way, Bremerton (To register, please call 1-800-647-7706)	10:00-12:00

## Questions & Answers

### Q. Is bottled water subject to sales tax in Washington?

**A.** No. Effective January 1, 2004, sales of bottled water are no longer subject to sales tax.

### Q. Is sales tax due when you buy a bag of ice?

**A.** Ice sold for human consumption is considered a food or food ingredient and is exempt from sales tax. "Ice sold for human consumption" means ice sold in cubes, shaved, or crushed form, and in quantities of ten pounds or less in weight per bag or container.

Blocks of ice of any weight are not considered a food or food ingredient and are subject to sales tax.

### Q. If you purchase a bottle of juice, is it subject to sales tax?

**A.** Sales tax does not apply to beverages that contain more than 50 percent fruit or vegetable juice or that contain milk or milk substitutes. Any beverage that contains a sweetener (natural or artificial) is subject to sales tax, unless the beverage contains either:

1. More than 50 percent fruit or vegetable juice; or
2. Milk or milk substitutes.

Unsweetened beverages are not taxable.



# Discounts, manufacturers' rebates, and sales tax

We often receive questions on how to calculate sales tax when discounts or manufacturers' rebates apply to reduce the amount the consumer pays.

These transactions are less confusing when you remember that Washington law requires sales tax to be calculated on the "selling price," that includes amounts received by the seller from a manufacturer in the form of a manufacturer's rebate.

## Store coupons/discounts

For store coupons or store discounts, the selling price is reduced if the seller does not receive payment from a third party, such as a manufacturer. In these cases, sales tax is calculated after the coupon or discount is applied. The same rationale is generally true for discount cards and two-for-one meal promotions.

For example, a shovel that is normally priced at \$30 is sold by the seller for a reduced price of \$20. Sales tax is calculated on the discounted price of \$20, because that is the total payment the seller receives for the sale.

## Manufacturers' rebates/coupons

The taxable "selling price" or "sales price" includes amounts that are reimbursed by a third party. In the case of a manufacturer's rebate or coupon, the price paid by the consumer is also reduced. However, if the manufacturer will pay the seller the discount amount, the seller must calculate the tax on the selling price *before* subtracting the discount.

For example, a telephone is priced at \$90 and has a manufacturer's rebate of \$20. The seller would subtract \$20 from the \$90 sale price, reducing the amount paid by the buyer to \$70. However, since the seller will receive a rebate of \$20 back from the manufacturer, the seller must calculate sales tax on the full \$90.

In Washington, vendors are not required to state on a coupon or rebate advertisement the price upon which the sales tax will be based. However, the actual invoice must clearly detail this information.

For additional information, see WAC 458-20-108 or ETA 408.08.108, available on our web site under *Laws and Rules* or by calling **1-800-647-7706**.

## On the Web



<http://dor.wa.gov>

Check out our improved web site! We listened to our customers and made several changes to make our web site work better for you. A new search engine, more information, and improved navigation have been added to help you get what you need. We've:

- Added "Google" as our search engine.
- Moved the E-file logon to our home page so you can register or logon quickly.
- Reorganized our information, simplified the navigation, and gave the site a new look and feel.
- Created a "Taxes" section to give you information about the taxes we administer, with quick links to related publications, rules, and laws.

We hope that you find our new site easy to use and that the information meets your needs. Visit <http://dor.wa.gov>, click on *Contact Us*, then the "Web Assistance and Suggestions" link to send us your feedback.

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